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SUBJECT: VIETNAM SHIFTS FOCUS TO MAINTAINING GROWTH

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¶1. (U) Summary: Inflation control has been Vietnam's top policy priority since the spring of 2008. In light of discouraging economic numbers and the financial crisis, the GVN is now shifting its priority to preventing economic slowdown and sustaining growth. Growth targets have been revised downward, interest rates dropped three times and the currency trading band widened. End Summary.

INFLATION UNDER CONTROL

¶2. (U) The GVN previously identified inflation control as its top priority for 2008 (reftel A). To achieve this goal, the State Bank of Vietnam (SBV) adopted a tight monetary policy with a focus on reducing money supply and controlling credit growth. Vietnam's double digit inflation appears to have peaked in September, when it hit 27.9% year on year. Recently released figures show that the downward trend has continued. Year on year inflation for November fell to 24.2%, down from 26.7% in October. The GVN and local economists, including the IMF, are predicting that falling commodity prices and easing capital inflows will bring single digit inflation in 2009.

GVN CONCERN ABOUT FINANCIAL CRISIS

¶3. (SBU) GVN concern about the financial crisis and its long term effects on the Vietnamese economy have increased in recent weeks (reftel B). During his remarks to the National Assembly in November, Prime Minister Nguyen Tan Dung said that "inflation and the global downturn have clearly had a negative impact on our economy in late 2008." Nguyen Xuan Phuc, Chairman of the Office of the Government (OOG), recently made similar statements in the press. He said that the GVN expects the global economic downturn will have negative impacts on Vietnam's economy, especially on its export, foreign investment, tourism, and stock market. Nguyen Dinh Cung, Director General of Vietnam's think tank Central Institute for Economic Management (CIEM) told Econoffs that he thinks "Vietnam's economy will be gradually but severely affected by the global recession."

¶4. (U) Their fears have basis in recent statistics. Vietnam's exports have fallen in the last few months, from \$6.5 billion in July, to \$6.1 billion in August, \$5.8 billion in September, and \$5.1

billion in October. The Ministry of Industry and Trade stated in its export planning for 2009 that, given the global downturn, "it is very difficult to expect a high growth in exports in 2009 and the growth is expected to be less than 10%". (Note: MOIT then set an 18 percent export growth target to "motivate" exporters.)

15. (U) New registered FDI is already dropping, down to \$726 million in November from over \$2 billion in October and almost \$10 billion in September. (Note: Registered FDI in this case means the amount of new investment "pledged" in investment licenses during the reporting period, not the amount actually invested during the period.) The GVN predicts the trend will continue in 2009. The Ministry of Planning and Investment (MPI)'s Foreign Investment Agency (FIA) recently released estimates indicating that registered FDI will fall by half next year, down to \$30 billion from approximately \$65 billion this year. (Note: MPI has admitted that it was approving projects in 2008 based in large part on the amount of pledged capital, so the decreased forecast may be partially a result of a policy shift towards project approval based more on likelihood of implementation and development goals.) The FIA states that the leading challenge to attracting FDI is the global economic downturn and its impact on developed nations. Although Vietnam does not release monthly statistics on implemented FDI, Phan Huu Thang, Director of MPI's FIA, said "with banks facing financial problems, capital disbursement for investment projects will not be smooth".

16. (SBU) The stock market has also been on a rocky ride, hitting a three year low of 303 last week. Foreign investors were net sellers of bonds and stocks in the past month. The State Securities Commission remains sanguine, however, telling us that they will continue to avoid market intervention because current market woes are "affecting everyone in the region, not just Vietnam."

GVN SHIFTS FOCUS FROM INFLATION TO GROWTH

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17. (SBU) Given these macroeconomic headwinds, the GVN is shifting its policy priority from controlling inflation to preventing economic downturn, according to Chairman Le Duc Thuy of the National Financial Supervisory Committee (NFSC). (Note: The NFSC is an organization set up by the PM to provide macroeconomic policy advice and, at some point in the future, supervision of the entire financial sector.) The GVN believes that Vietnam's inflation will continue to fall, eventually dropping below 10 percent in 2009. Thuy says the GVN is concerned that, in the context of global recession, Vietnam may face issues such as economic slowdown, even recession, or high unemployment if it fails to make timely policy responses.

18. (SBU) There is ample evidence that this policy shift is already occurring. During the National Assembly session in November, the GVN lowered its economic growth target for 2009 from 6.7 percent to 6.5 percent. Well-placed sources say that the internal GVN growth estimate for 2009 is actually much lower, currently at 4.2 percent, and the higher public number will be dialed back over the course of the coming year. Local economists agree. Both the IMF and the ADB recently revised their 2009 growth projections down to 5 percent. Thuy says that the GVN has estimated that it needs to achieve 8 percent annual GDP growth to create a sufficient amount of jobs for new graduates and to maintain quality of life. On December 1, a senior MPI official told the annual Vietnam Business Forum (septel) that a "stimulus package," including tax cuts, state spending and social security programs, is in the works and should be made public soon.

19. (SBU) The GVN is also slashing interest rates in an attempt to spur domestic economic activity (reftel C). After raising interest rates to reduce inflation and control credit growth earlier in 2008, the SBV has now decreased rates three times in the last month and lowered the reserve requirement from 10 to 8 percent. NSFC Chairman Thuy believes that such relaxation should be continued in 2009. Prime Minister (PM) Dung also told the National Assembly during his November remarks that "we will continue to reduce interest rates". There has been speculation in the press that rates could be reduced as low as 7 or 8 percent in the coming months.

110. (SBU) Lastly, the SBV widened the currency trading band from two

to three percent in early November, effectively allowing the dong to depreciate. This move was aimed at supporting Vietnam's exports and containing its trade deficit, which reached US\$ 16.8 billion in the first ten months of 2008. (Note: the GOV set an informal trade deficit target of US\$ 20 billion for 2008.) According to Chairman Thuy, the currency trading band should "continue to be widened" to avoid the possible need for a sudden devaluation and to prevent pressure on foreign reserves. According to local banks, however, the SBV may already be feeling that pressure; the SBV is not defending the band and dollars are in shorter supply.

¶11. (SBU) COMMENTS: Most economists consider Vietnam's shift towards preventing economic slowdown as a reasonable response to a challenging global situation. The concern, however, is that rapid policy actions may signal inexperience or even panic to investors. Banks are reportedly already very liquid, but are not lending due to decreased demand for capital from the slowing business sector. As a result, some local economists and advisors called the third interest rate cut premature. The dong/dollar exchange rate lends credence to this view; the dong is at the top of the trading band and the black market rate somewhat higher. The SBV is once again warning people against dollar hoarding. While some of this may be as a result of a flight to "safe" currencies during a time of uncertainty, the effect of multiple interest rate decreases is likely playing a role in investor confidence. End Comment.

¶12. (U) Ho Chi Minh City has cleared on this cable.
MICHALAK